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UNCLAS ANKARA 000822

SIPDIS

SENSITIVE

STATE FOR E, EB/IFD/OMA AND EUR/SE
TREASURY FOR OASIA - MILLS AND LEICHTER
STATE PASS USTR - NOVELLI AND BIRDSEY

E.O. 12958: N/A

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SUBJECT: TURKEY'S \$3.3 BILLION DEBT SERVICE ON FEB. 5;
TREASURY'S REVISED INTEREST RATE PROJECTIONS FOR 2003

REF: ANKARA 752

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1. (U) Turkish Treasury released its February Domestic Debt Service schedule on January 31, showing a monthly total of TL 6.8 quadrillion (\$4.1 billion), of which TL 5.6 quadrillion is to be paid on February 5. Given the ten-day holiday in the middle of the month, during which another TL 0.8 quadrillion is due, the entire borrowing burden for the month falls in the first week.

2. (SBU) Treasury's goal is to raise at least TL 4.5 quadrillion (about \$2.8 billion) in T-bill auctions on February 4, according to Deputy DG Volkan Taskin. He told us this is the minimum amount needed. Other sources that will be tapped to meet February debt service include:

-- External borrowing of \$350 million announced on January 31 (a re-opening of the 2008 maturity dollar bond launched November 7).

-- Treasury's cash account, currently at TL 5.2 quadrillion (though much of this is needed to pay GOT salaries and make external debt service payments in February).

3. (SBU) Volkan also provided Treasury's latest projections for 2003 domestic borrowing, after the January 28 Higher Planning Council decisions on 2003 budget aggregates (reftel).

-- Average nominal interest rate on fixed rate lira

T-bills: 43 percent.

-- Market roll-over rate: 93 percent;

total roll-over rate: 87 percent.

-- Average maturity of new fixed rate T-bills: 8 months.

-- Assumptions: \$4.5 billion in Eurobonds; \$1.7 billion in IMF disbursements. U.S. bilateral aid not assumed.

4. (SBU) Taskin said Treasury has told the GOT that to get the 43 percent average interest rate over 2003 will require full implementation of the IMF program, and good timing on the Iraq crisis. Treasury expects interest rates to decline after the Iraq crisis, but to stay at current levels or even higher until then. To get the sharp declines needed after Iraq, the GOT needs to have its economic reform policies in order, per Taskin.

5. (SBU) Comment: One potential problem for the February 4 t-bill auctions will be the February 3 release of January inflation data - some market analysts are predicting CPI to come in very high, in the 3-4 percent range.

PEARSON